

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2313-01  
Bill No.: Perfected HB 952  
Subject: Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Sales and Use  
Type: Original  
Date: April 15, 2009

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Bill Summary: Would create an Independence Day Sales Tax Holiday.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
General Revenue	(More than \$145,901,836)	(More than \$145,906,750)	(More than \$145,909,954)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(More than \$145,901,836)</b>	<b>(More than \$145,906,750)</b>	<b>(More than \$145,909,954)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
School District Trust	(More than \$57,000,000)	(More than \$57,000,000)	(More than \$57,000,000)
Conservation Commission	(More than \$7,600,000)	(More than \$7,600,000)	(More than \$7,600,000)
Parks, and Soil and Water	(More than \$6,100,000)	(More than \$6,100,000)	(More than \$6,100,000)
Road Bond	(More than \$7,450,000)	(More than \$7,450,000)	(More than \$7,450,000)
State Transportation	(More than \$5,587,500)	(More than \$5,587,500)	(More than \$5,587,500)
State Road	(More than \$149,000)	(More than \$149,000)	(More than \$149,000)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(More than \$83,886,500)</b>	<b>(More than \$83,886,500)</b>	<b>(More than \$83,886,500)</b>

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
General Revenue	3	3	3
<b>Total Estimated Net Effect on FTE</b>	<b>3</b>	<b>3</b>	<b>3</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
<b>Local Government</b>	<b>(More than \$1,862,500 to Unknown)</b>	<b>(More than \$1,862,500 to Unknown)</b>	<b>(More than \$1,862,500 to Unknown)</b>

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## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of the Secretary of State (SOS)** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Conservation (MDC)** assume this proposal would have a negative impact on MDC funds greater than \$100,000, since it exempts sales tax from sales from July 4 to July 31. However, MDC will rely on DOR for the fiscal impact of this proposal.

Officials from the **Department of Natural Resources (DNR)** assume this proposal would authorize a state sales and use tax holiday from July 4 through July 31. A political subdivision could opt into the holiday. Based on information provided by the Department of Revenue, DNR officials estimate the proposal would result in a loss of approximately \$6.3 million annually.

Officials from the **Department of Elementary and Secondary Education** deferred to the Department of Revenue for an estimate of the fiscal impact of this proposal.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume there would be no added cost to their organization as a result of this proposal. BAP officials stated that this proposal would create the Independence Day Sales Tax Holiday from July 4 through July 30 each year.

BAP notes that this 27-day interval each year is approximately 7.4% of the calendar year and assumes this proposal could reduce sales tax collections by at least 7.4% each year, as reflected in the following table.

ASSUMPTION (continued)

	Total Gross Collections	7.4% of Gross Collections
General Revenue Fund	\$1,970.6	\$145.8
School District Trust Fund	\$769.6	\$57.0
Conservation Commission Fund	\$102.9	\$7.6
Parks, and Soil and Water Funds	\$82.4	\$6.1
Motor Vehicle	\$200.9	\$14.9
Total		\$231.5

Officials from the **Department of Revenue** (DOR) assume this proposal would create a new sales tax holiday, which would decrease total state revenues. The proposal would create the "Independence Day Sales Tax Holiday". For all tax years beginning on or after January 1, 2009, all retail sale of any tangible personal property and services at retail will be sales tax exempt from 12:01am July 4th till midnight on July 31.

Political subdivisions would be required to notify DOR at least 30 days in advance if they intend to opt in, and the provisions would not apply to retailers for which less than 2% of their merchandise qualifies for the holiday.

DOR assumes that most local political subdivisions would not participate, and that this legislation would result in an item tax record added to the return for each reporting location. DOR would require programming support to establish an item tax or partial rate to collect the local taxes for any political subdivision that chooses to keep their taxes in place during the holiday. DOR assumes that this proposal would result in a significant increase in Long Form filers, reducing the use of the short form voucher by filers. The short form voucher can be processed via the automated Remittance Processing System. Therefore, Business Tax anticipates that implementing this proposal would require additional FTE.

ASSUMPTION (continued)

Business Tax anticipates that this legislation would require one FTE Revenue Processing Technician I for every 50,000 returns filed, one FTE Revenue Processing Technician I for every 17,000 returns requiring corrections, and one FTE Revenue Processing Technician I for every 25,000 returns requiring maintenance.

DOR provided an estimate of the cost to implement this proposal including three additional employees and the related equipment and expenditures totaling \$115,834 for FY 2010, \$123,257 for FY 2011, and \$126,954 for FY 2012.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense costs in accordance with OA budget guidelines. Finally, Oversight assumes that DOR could accommodate a limited number of additional employees in existing office space.

Sales Tax Collections Data

Based on July 2008 taxable sales from the Data Warehouse, taxable sales were \$6,259,673,260 (\$6.3 Billion). This does not include sales of motor vehicles. Based on historical data, the loss in revenue would have been approximately \$265 million.

General Revenue -	\$187,790,198
Conservation -	\$7,824,592
Education -	\$62,596,733
Parks and Soils -	\$6,259,673

This legislation also appears to exempt retail sales of dyed diesel fuel and kerosene from sales taxes during this period. During calendar year 2008, an average of 23 million gallons of off-road fuel was purchased by distributors for sale this month. A portion of this fuel would have been sold to sales tax exempt entities (cities and local governments); therefore, DOR is not able to determine the amount of revenue that would be lost due to this exemption.

ASSUMPTION (continued)

DOR officials provided this estimate of the IT cost to implement the proposal.

Officials from the Office of Administration, Information Technology Services Division (ITSD/DOR) estimated that this legislation could be implemented using two FTE existing CIT III for three months for system modifications to MITS at a total cost of \$26,646. ITSD/DOR officials assume the IT portion of this proposal could be implemented with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

**Oversight** assumes ITSD/DOR could implement the provisions in this proposal with existing resources.

Officials from **Linn State Technical College**, the **Metropolitan Community Colleges, Clinton County**, and the **City of Centralia** assume this proposal would have no fiscal impact on their organizations.

Officials from the **City of Kansas City** assume this proposal could have a negative fiscal impact on the city if the voters approved a sales tax holiday as contemplated by the legislation. City officials estimated that Kansas City could lose an estimated 10 million to 11 million dollars.

Officials from the **City of Raytown** assume this proposal would have a substantial negative impact if the city chose to rebate sales taxes from July 4 through July 31, but since the city does not have to participate, there is no known fiscal impact th this proposal.

**Oversight** will indicate a fiscal impact in excess of the BAP estimates due to the loss of sales tax on off-road motor fuel, and the likelihood of otherwise taxable sales being diverted into the sales tax holiday. Oversight will also indicate a revenue reduction for local governments from \$0 to Unknown due to the local option provision in this proposal.

**This proposal includes an emergency clause.**

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
<b>GENERAL REVENUE FUND</b>			
<u>Cost - Department of Revenue</u>			
Personnel (3 FTE)	(\$56,700)	(\$70,081)	(\$72,184)
Benefits	(\$27,573)	(\$34,080)	(\$35,103)
Expense and equipment	(\$17,563)	(\$2,589)	(\$2,667)
Total	<u>(\$101,836)</u>	<u>(\$106,750)</u>	<u>(\$109,954)</u>
<u>Revenue reduction - sales tax holiday</u>	<u>(More than \$145,800,000)</u>	<u>(More than \$145,800,000)</u>	<u>(More than \$145,800,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(More than \$145,901,836)</u></b>	<b><u>(More than \$145,906,750)</u></b>	<b><u>(More than \$145,909,954)</u></b>
Estimated FTE Effect on General Revenue Fund	3	3	3
<b>SCHOOL DISTRICT TRUST FUND</b>			
<u>Revenue reduction - sales tax holiday</u>	<u>(More than \$57,000,000)</u>	<u>(More than \$57,000,000)</u>	<u>(More than \$57,000,000)</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b><u>(More than \$57,000,000)</u></b>	<b><u>(More than \$57,000,000)</u></b>	<b><u>(More than \$57,000,000)</u></b>
<b>CONSERVATION COMMISSION FUND</b>			
<u>Revenue reduction - sales tax holiday</u>	<u>(More than \$7,600,000)</u>	<u>(More than \$7,600,000)</u>	<u>(More than \$7,600,000)</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b><u>(More than \$7,600,000)</u></b>	<b><u>(More than \$7,600,000)</u></b>	<b><u>(More than \$7,600,000)</u></b>

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
<b>PARKS, AND SOIL AND WATER FUNDS</b>			
<u>Revenue reduction</u> - sales tax holiday	<u>(More than \$6,100,000)</u>	<u>(More than \$6,100,000)</u>	<u>(More than \$6,100,000)</u>
<b>ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS</b>	<b><u>(More than \$6,100,000)</u></b>	<b><u>(More than \$6,100,000)</u></b>	<b><u>(More than \$6,100,000)</u></b>
<b>ROAD BOND FUND</b>			
<u>Revenue reduction</u> - sales tax holiday	<u>(More than \$7,450,000)</u>	<u>(More than \$7,450,000)</u>	<u>(More than \$7,450,000)</u>
<b>ESTIMATED NET EFFECT ON ROAD BOND FUND</b>	<b><u>(More than \$7,450,000)</u></b>	<b><u>(More than \$7,450,000)</u></b>	<b><u>(More than \$7,450,000)</u></b>
<b>STATE ROAD FUND</b>			
<u>Revenue reduction</u> - sales tax holiday	<u>(More than \$5,587,500)</u>	<u>(More than \$5,587,500)</u>	<u>(More than \$5,587,500)</u>
<b>ESTIMATED NET EFFECT ON STATE ROAD FUND</b>	<b><u>(More than \$5,587,500)</u></b>	<b><u>(More than \$5,587,500)</u></b>	<b><u>(More than \$5,587,500)</u></b>
<b>STATE TRANSPORTATION FUND</b>			
<u>Revenue reduction</u> - sales tax holiday	<u>(More than \$149,000)</u>	<u>(More than \$149,000)</u>	<u>(More than \$149,000)</u>
<b>ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND</b>	<b><u>(More than \$149,000)</u></b>	<b><u>(More than \$149,000)</u></b>	<b><u>(More than \$149,000)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
<b>LOCAL GOVERNMENTS</b>			
Revenue reduction - sales tax holiday/state distribution	<u>(More than</u> <u>\$1,862,500)</u>	<u>(More than</u> <u>\$1,862,500)</u>	<u>(More than</u> <u>\$1,862,500)</u>
Revenue reduction - sales tax holiday/local option	<u>\$0 or</u> <u>(Unknown)</u>	<u>\$0 or</u> <u>(Unknown)</u>	<u>\$0 or</u> <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS</b>	<u>(More than</u> <u>\$1,862,500 to</u> <u>Unknown)</u>	<u>(More than</u> <u>\$1,862,500 to</u> <u>Unknown)</u>	<u>(More than</u> <u>\$1,862,500 to</u> <u>Unknown)</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

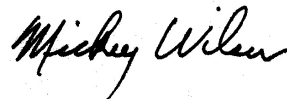
FISCAL DESCRIPTION

This proposal would create an Independence Day Sales Tax Holiday.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State  
Office of Administration  
    Division of Budget and planning  
Department of Conservation  
Department of Elementary and Secondary Education  
Department of Natural Resources  
Department of Revenue  
Linn State Technical College  
Metropolitan Community Colleges  
Clinton County  
City of Centralia  
City of Kansas City  
City of Raytown



Mickey Wilson, CPA  
Director  
April 15, 2009